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Benefits to 35 Million Families Exceed Total Taxes They Pay

Government taxing and spending operations, taken in tandem, result in a definite redistribution of income in favor of low-income families, according to a new Tax Foundation study. Some 35 million families—those comprising the lower half of the income distribution—receive more in government benefits than they pay in taxes. In 1972-73, these families earned up to $10,000 a year.

In fact, the lower the income, the more favorable the tilt of government fiscal operations. Families in the lowest income bracket received government benefits equal to 3.3 times their tax burdens. Families earning from $10,000 to $12,000—about 9 percent of the population—just about broke even. The 42 percent of all family units earning above $12,000 in 1973—nearly 30 million families—paid more in taxes than they derived in benefits from all levels of government. Those families in the highest bracket—over $25,000—have tax burdens nearly twice (1.9 times) the benefits coming to them through government expenditures.

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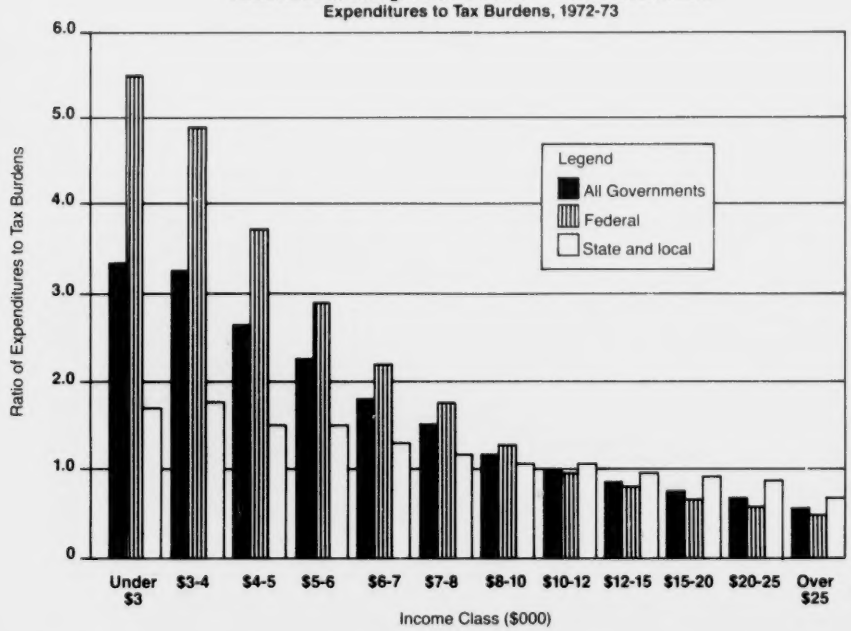
Redistribution through Public Finance—Ratio of Government Expenditures to Tax Burdens, 1972-73



Most Taxpayers Carry Proportional Burden, TF Research Reveals

Who pays the taxes? Just about everybody pays a proportional share of the cost of running government, according to Tax Foundation researchers. The percentage of income paid in taxes is approximately the same throughout the income range which includes three-fourths of all families. Those families with incomes between $4,000 and $25,000 (1972-73 levels) pay just over a third of their income in Federal, state, and local taxes.

This overall proportionality exists notwithstanding variations in individual types of taxes and in Federal and state/local tax structures generally, say Tax Foundation economists.

Federal Taxes

The moderately progressive tax structure which prevails at the Federal level is due largely to the role played by the individual income tax in the overall tax structure. As a share of total income, as defined in the study, this tax ranged from 2.4 percent in the lowest brackets to more than 12 percent in the highest.

Corporate income taxes, when allocated according to the assumptions used in the study (one-half of the tax falls on stockholders, one-half is shifted forward in higher consumer prices), are generally regressive over the first nine income classes (up to $15,000) and proportional for family

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The Front Burner

By Robert C. Brown
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"The Whole Is Equal to the Sum of Its Parts"

The late G. K. Chesterton once said, "Orthodoxy is my doxy. Heterodoxy—or heresy—is the other fellow's doxy." The same can be said with regard to past approaches to cuts in taxing and spending.

"My" tax reform is one that takes the other fellow's break without altering the deductions in my form 1040. "My" spending reduction is one that gives the other fellow less from the public coffers without diminishing the benefits that flow to me. That brand of thinking is one of the things that has helped to get us into the current economic mess.

However, if the American voters sent any message to our national leadership last fall, it was that business as usual is no longer acceptable. Radical overhaul—in the fundamental sense of going to the root of the problem—is what the voters mandated. If the present leadership team fails to deliver, the experience of 1980 leads us to believe that 1982 and 1984 will see more clean sweeps and fresh teams on the field. But by then, the game may already have been lost.

The basic goal to keep in mind in tackling Federal tax and fiscal problems is highlighted by Tax Foundation's study on tax burdens and government benefits to which this issue of *Monthly Tax Features* is devoted. The mechanism which takes private income and redistributes it through the public sector is about to face some major changes, which will inevitably be phased in over several years.

We must increase the wealth—the capital base—of the economy so that the pie will grow larger and eventually allow a larger share for all Americans. Where spending programs—many of them now indexed to inflation and set up as entitlements not accessible to easy restructuring—have become part of the problem and not part of the solution, there must be major surgery. But it is surgery that is called for, not butchering.

Overall, the taxing/spending system must be kept in balance. All the parts of public policy must be carefully articulated (and that includes monetary policy and the regulatory burden as well). Politics is the art of the possible, and the ultimate solution to emerge—one hopes well before this calendar year ends—will be based on a consensus between the Administration and the Congress and between the two major political parties and their leadership.

We urge that they remember, as they reach this consensus, that all parts of this great whole which is the United States be treated fairly. For under our form of government, the whole, indeed, is only as great as the sum of the parts.

Most Taxpayers

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incomes between $15,000 and $25,000. Above this level, the ratio of corporate income tax burdens again rises sharply due to the high level of dividend income. Excise taxes and customs, the burden of which is assumed to fall on consumers, are substantially regressive for earners at all levels.

Social insurance taxes, Foundation economists find, are roughly proportional from the second ($3,000-$3,999) through the seventh ($8,000-$9,999) money income groups—with some slight progressivity. These taxes are regressive throughout the rest of the income spectrum. The study attributes this to the partial balancing of the incidence of the employee and employer shares of these taxes. The employee share is assumed to fall on the worker. Because of the growing importance of the number of earners (and of wage income) as total incomes rise, social insurance taxes are progressive in the lower- and middle-income ranges, but workers at the highest end of the scale carry a very large share of the burden. Since, under the standard assumptions, the employer's share of social insurance taxes falls on consumers in the form of higher prices, the burden of the employer tax is regressive throughout the entire income range.

State/Local Taxes

Only the individual income tax is significantly progressive in the overall state and local tax system. And this progressivity is overwhelmed by the regressivity of sales and property taxes, which make up the bulk of state and local taxes.

Tax burdens at this level are significantly larger than Federal tax burdens for families in the three lowest income brackets. In contrast, for top earners, state and local taxes are less than half as large as Federal taxes.

Tax Foundation economists point out that this pattern inevitably follows from the study's assumption that the incidence of most state and local taxes falls on consumers, coupled with the fact that consumption as a proportion of income rises as income falls. For families in the lowest income bracket, for example, consumption expenditures exceed money income by a sizable amount.

See the accompanying table for a breakdown of Federal and state/local tax burdens as a percentage of total income by money income class.

Tax Burdens as a Percent of Total Income[a] by Money Income Class, 1972-73

Money income class (000)	Total	Federal	State and local
Under $3	49.8	21.2	28.6
$3 - $4	35.9	16.8	19.1
$4 - $5	34.1	16.9	17.2
$5 - $6	33.5	17.5	16.0
$6 - $7	34.4	18.7	15.7
$7 - $8	33.5	18.6	14.9
$8 - $10	34.8	20.4	14.4
$10 - $12	34.5	20.9	13.7
$12 - $15	33.6	20.9	12.7
$15 - $20	33.5	21.3	12.2
$20 - $25	33.0	21.5	11.6
Over $25	35.8	24.9	10.9
Total: All classes	34.5	21.5	13.0

[a] Net national product basis.

Government Aid

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While the pattern of income redistribution holds at all levels, the extent of redistribution is far greater at the Federal level than for state and local governments combined. The ratio of benefits to tax burdens for Federal activities ranges from 5.5 in the lowest income group to 0.5 in the highest. Corresponding ratios for state and local governments are 1.6 and 0.7, respectively.

The Tax Foundation analysis points out that the redistribution pattern prevails both for those expenditures (and associated tax burdens) which can be closely linked to specific groups of beneficiaries, and for the more general expenditure benefits (national defense, cost of operating the Federal government, etc.) which cannot be imputed to particular individuals or groups.

When considered alone, social insurance programs (OASDHI, unemployment compensation, and retirement benefits for Federal, state, and local employees) are more redistributive of income (measured by the ratio of benefits to expenditures) than the other expenditures. For the lowest income classes, benefits are five times the tax burden; and for the highest income classes, taxes are three times the benefits received.

Taking into account all levels of government, the tax burden is "roughly proportional," the study indicates, exacting about the same share of income for all income brackets. On the other hand, government spending patterns favor lower income earners. Sector by sector, the pattern shifts somewhat. Federal taxes tend to be "somewhat progressive," Tax Foundation research indicates, while Federal spending favors lower income groups. This combination of tax and spending policy produces a high degree of redistribution of income, according to the report.

State and local governments tend to be "somewhat regressive" in tax policies, and the spending benefits of state/local government units are not so sharply oriented toward the poor, according to Foundation economists.

High Earners Get Fewer Benefits For Federal, State/Local Taxes

As incomes rise, government spending benefits per dollar of income fall—and this pattern holds true for almost every category of spending. Simply put, that is what Tax Foundation economists found when they examined the pattern of benefits received from government expenditures compared to taxes paid and levels of income.

For example, for every $100 of total income received by the lowest income group studied, government expenditure benefits totaled $162 (1972-73 levels). Government benefits, in fact, exceeded total income for families with money incomes below $4,000. At the high end of the income scale—where family incomes exceed $25,000—government spending benefits come to only about $19 per $100 of income.

On the whole, spending by the Federal government favors lower income groups more than state/local spending does. In 1972-73, Federal expenditures were approximately 122 percent of income for the lowest income group and only 12.6 percent for those at the highest income level. In other words, Federal government benefits as a percentage of total income were nearly ten times as great for families with money incomes under $3,000 as for families with money incomes over $25,000.

At the state and local levels, benefits ranged from 40.4 percent of income for the lowest earners to 6.8 percent for the highest, a ratio of about six to one.

Another way in which Tax Foundation economists express the breakdown of benefits derived through government spending is as follows: For the lowest income class, three-fourths of the total benefits derived from government expenditures were from Federal programs and one-fourth from state and local programs; for those at the upper end of the scale, the proportion was approximately two-thirds and one-third, respectively.

Details on benefits are given in the table below.

Benefits of Government Expenditures as a Percent of Total Income[a] by Money Income Class, 1972-73

Money income class (000)	Total	Federal	State and local
Under $3	162.4	122.0	40.4
$3 - $4	114.1	86.2	27.9
$4 - $5	88.0	65.9	22.1
$5 - $6	74.3	53.3	21.0
$6 - $7	61.2	43.1	18.0
$7 - $8	50.2	34.2	16.0
$8 - $10	41.2	27.1	14.2
$10 - $12	33.8	20.7	13.1
$12 - $15	28.8	17.6	11.2
$15 - $20	25.0	15.0	10.0
$20 - $25	22.4	13.1	9.3
Over $25	19.4	12.6	6.8
Total: All classes	34.4	22.6	11.8

[a] Net national product basis.

The new study, "Allocating Tax Burdens and Government Benefits by Income Class, 1972-73 and 1977," is based on the latest comprehensive nationwide survey of consumer income and expenditures issued by the Bureau of Labor Statistics. It devel-

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Tax Burdens and Benefits of Government Expenditures at Different Income Levels, 1972-73

Total income level[a]	Total tax burden	Total value of benefits
$ 2,400	$ 1,193	$3,894
4,700	1,690	5,366
6,000	2,049	5,286
7,300	2,453	5,437
8,600	2,964	5,272
9,900	3,306	4,948
11,800	4,123	4,879
14,400	4,969	4,864
17,700	5,946	5,099
22,800	7,618	5,693
29,200	9,655	6,553
50,200	17,965	9,760
15,800 (average)	5,466	5,499

[a] Total income as defined in study: includes money income, plus income in kind, and other non-money income included in net national product.

Government Aid

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ops estimates of tax burdens and the benefits of government expenditures for families grouped according to the size of their income.

The study also examines how taxes paid and government benefits received by persons in different income groups compare with their incomes. While the emphasis is on the years 1972-73, the year to which the Bureau of Labor Statistics data apply, estimates are also provided for 1977. The Foundation's economists caution, however, that the data for 1977 "should be regarded as provisional, since they are not adjusted for upward shifts in the distribution of income and associated consumption patterns since 1972-73."

The table at the top of this page shows the dollar value of tax burdens and benefits of government expenditures for selected income levels for 1972-73. The table which appears below gives the ratio of government expenditures to tax burdens by income class for the same period.

Copies of "Allocating Tax Burdens and Government Benefits by Income Class, 1972-73 and 1977" are available from the Tax Foundation for $2.50.

Tax Policy and R&D Subject of TF Seminar

Senator John C. Danforth will speak on the impact of tax policy on research and development at a seminar to be held by the Tax Foundation on March 25, 1980 at the International Club of Washington, D.C. Danforth, U.S. Senator from Missouri and member of the Senate Finance Committee, will address the noon luncheon which concludes the seminar.

"Tax Policy and R&D" will be examined in depth during the morning sessions, which will be moderated by Thomas P. Maletta, Vice President-Taxes, Allegheny Ludlum Industries, Inc. The first portion of the seminar will be addressed to "Economic Overview—R&D and Economic Performance."

The second session will examine "Tax Policy and R&D—Incentives, Disincentives, and Definitions."

For further information, contact the Office of Tax Policy at the Tax Foundation.

Now Available

"The Congressional Budget Process at the Crossroads" by Maynard H. Waterfield, (Special Report), January 1981, 14 pages, $1.00.

Redistribution of Income Through Public Finance by Income Class, 1972-73

Money income class (000)	Ratio of government expenditures to tax burdens[a] All governments	Federal	State and local	Exhibit: Social insurance benefits/social insurance taxes[b]
Under $3	3.3	5.5	1.6	5.0
$3 - $4	3.2	4.9	1.6	5.2
$4 - $5	2.6	3.7	1.4	4.2
$5 - $6	2.2	2.9	1.4	3.5
$6 - $7	1.8	2.2	1.3	2.6
$7 - $8	1.5	1.8	1.2	1.8
$8 - $10	1.2	1.3	1.1	1.3
$10 - $12	1.0	.9	1.1	.7
$12 - $15	.9	.8	1.0	.6
$15 - $20	.8	.7	.9	.4
$20 - $25	.7	.6	.9	.3
Over $25	.5	.5	.7	.3
Total: All classes	1.0	1.0	1.0	1.0

[a] Based on standard assumptions used in study.
[b] All governments.

About Tax Features

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